



## **Staff Report**

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### EMPLOYER PICKUP RESOLUTION—PRE-TAX PAYROLL DEDUCTION PLAN FOR SERVICE CREDIT PURCHASES

Honorable Mayor and Council Members:

#### **Summary**

Staff is recommending that the resolution authorizing the California Public Employees' Retirement System (CalPERS) pre-tax payroll deduction plan for service credit purchases be approved.

#### **Background**

In 1986, the City implemented the provisions of section 414(h)(2) of the Internal Revenue Code (IRC), allowing for tax deferment of the employees' required CalPERS contribution (Resolution No. 6255 dated June 24, 1986). IRC section 414(h)(2) enables the employer to "pick up" the employees' CalPERS contribution (7% for miscellaneous employees; 9% for safety employees), after deducting the employee contribution from the employees' salary on a pre-tax basis.

Currently, employees have the option of purchasing various types of service credit under CalPERS, including temporary service time, military service time, and the newly available "Additional Retirement Service Credit" (which allows employees to purchase up to five years of service credit that is not based on employment with a CalPERS employer). Employees who elect to purchase CalPERS service credit are doing so at their own expense on an after-tax basis.

#### **Discussion**

Filing the attached Employer Pickup Resolution—Pre-Tax Payroll Deduction Plan for Service Credit Purchases with CalPERS will enable the City to extend the pick-up of member contributions under IRC section 414(h)(2) provisions to service credit purchases. This will provide employees with the benefit of paying for service credit purchases on a pre-tax basis. This is a relatively minor administrative change that can be implemented at no cost to the City.

**Fiscal Impact**

No Fiscal Impact

**Public Contact**

Posting of City Council agenda.

**Recommendation**

Staff recommends approval of the attached CalPERS Employer Pickup Resolution--Pre-Tax Payroll Deduction Plan for Service Credit Purchases.

**Alternatives**

1. Take no action.

**Attachments**

- A. Employer Pickup Resolution--Pre-Tax Payroll Deduction Plan for Service Credit Purchases.

Respectfully submitted,

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Deirdre Dolan  
Human Resources Director

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Daniel Rich  
Interim City Manager

**EMPLOYER PICKUP RESOLUTION  
PRE-TAX PAYROLL DEDUCTION PLAN  
FOR SERVICE CREDIT PURCHASES  
(CONTRIBUTION CODE 14)**

**WHEREAS**, the Board of Administration of the California Public Employees' Retirement System (CalPERS) at the April 1996 meeting approved a pre-tax payroll deduction plan for service credit purchases under Internal Revenue Code (IRC) section 414(h)(2); and

**WHEREAS**, the City of Belmont has the authority to implement the provisions of IRC section 414(h)(2) and has determined that even though implementation is not required by law, the tax benefit offered by this section should be provided to those employees who are members of CalPERS; and

**WHEREAS**, the City of Belmont elects to participate in the pre-tax payroll deduction plan for all employees in the following CalPERS coverage group(s):

Miscellaneous  
Safety

**NOW, THEREFORE, BE IT RESOLVED:**

- I. That the City of Belmont will implement the provisions of IRC section 414(h)(2) by making employee contributions for service credit purchases pursuant to the California State Government Code on behalf of its employees who are members of CalPERS and who have made a binding irrevocable election to participate in the pre-tax payroll deduction plan. "Employee contributions" shall mean those contributions reported to CalPERS which are deducted from the salary of employees and are credited to individual employee accounts for service credit purchases, thereby resulting in tax deferral of employee contributions.
- II. That the contributions made by the City of Belmont to CalPERS, although designated as employee contributions, are being paid by the City of Belmont in lieu of contributions by the employees who are members of CalPERS.
- III. That the employees shall not have the option of choosing to receive the contributed amounts directly instead of having them paid by the City of Belmont to CalPERS.
- IV. That the City of Belmont shall pay to CalPERS the contributions designated as employee contributions from the same source of funds as used in paying salary, thereby resulting in tax deferral of employee contributions.

- V. That the effective date for commencement of the pre-tax payroll deduction plan cannot be any earlier than July 1, 1996, or the date the completed resolution is received and approved in CalPERS, whichever is later.
  
- VI. That the governing body of the City of Belmont shall participate in and adhere to requirements and restrictions of the pre-tax payroll deduction plan by reporting pre-tax payroll deductions when authorized by CalPERS for those employees of the above stated Coverage Group(s) who have elected to participate in this plan.

\* \* \* \* \*

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the City of Belmont at a regular meeting thereof held on January 11, 2005 by the following vote:

AYES, COUNCILMEMBERS: \_\_\_\_\_

NOES, COUNCILMEMBERS: \_\_\_\_\_

ABSTAIN, COUNCILMEMBERS: \_\_\_\_\_

ABSENT, COUNCILMEMBERS: \_\_\_\_\_

\_\_\_\_\_  
CLERK of the City of Belmont

APPROVED:

\_\_\_\_\_  
MAYOR of the City of Belmont

RETURN ADDRESS:  
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**FOR CALPERS USE ONLY**  
**Pre-tax Payroll Deduction Plan Effective Date:**  
**Approved by: Title:**  
**MEMBER SERVICES DIVISION, Service Credit Section – Unit 830**